2023 September Team Newsletter

Portfolio Tax Planning

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As we come close to the end of the year, it is time for some tax planning in your portfolios. We look for opportunities to potentially reduce your tax bill now or optimize future taxable income by redistributing it over future years. Two strategies we commonly use include tax loss selling and withdrawing from RRSPs for low-income individuals.

Tax loss selling

This strategy involves selling a security that is currently in a loss position and that is held in taxable accounts (not in RRSPs or TFSAs). Selling it at a loss and potentially buying it after 30 days will generate a capital loss now that can be used to offset capital gains that you might have incurred this year or in two previous years, subject to certain conditions.

Looking at annual market returns over the past three years; two years were positive (2021 and 2023 so far) and one was negative (2022) [1]. Because we often take profits over time, you may have ended up with taxable capital gains in your portfolio.

Deregistering funds from your RRSPs

If you or your spouse have zero or low income for the year and are in a low tax bracket, it makes sense taking some funds out of the RRSP accounts now and reducing the future tax burden when you will be “forced” to take money out of the RRSP at a defined pace when it is converted to a RRIF at age 71.

Even if you do not need the money, we can still take it out of the RRSP and transfer to a TFSA account (if you have contribution room) or to a non-registered account and keep it invested. We don’t even have to sell your stocks or bonds; they can be transferred in kind.

Forward us your tax returns and notice of assessment so we can review any opportunities for tax loss selling or evaluate if deregistering from your RRSP is right for you.

Sources:
[1] YCharts on 09/22/23

Welcome to RIFF Season
Mathew Cain, CIM
Associate Portfolio Manager, Manulife Securities Incorporated

Well, not quite yet, but it’s just around the corner and our team always likes to set the stage about what to expect.

If you have already converted your RRSPs and other registered accounts to a RRIF, then please expect to hear from our team shortly to complete your annual withdrawal if we haven’t already done so.

If you are turning 71 this year, then this is the year we need to convert your RRSP in a RRIF account.

I have spoken on this topic several times in past newsletters as it is an important milestone topic. I would encourage you to read about RRIFs and more in our newsletter section on the past newsletter section of our website.

Today, I would like to focus on the types of accounts you may have that need to be converted by November 30th. There is more than one.

Your RRSP to RRIF Account

- This is your traditional retirement savings account that you've likely contributed for the past ten to fifty years.
- This will be converted into a Registered Retirement Income Fund, or RRIF.
- Your minimum withdrawal amount is required and is important. Please see the withdrawal section below for further details.
- There are no maximum withdrawal restrictions. Yes, you could essentially withdraw your entire RRIF if you wanted, subject to taxes, however.

Your Spousal RRSP to Spousal RRIF Account

- This account is similar to an RRSP, except at one point, your spouse (whether current or previous) had added money to your spousal RRSP. Typically, this strategy is employed during years when one spouse has a significantly higher income than the other.
- The withdrawals will be taxed in the hands of the account holder, not the contributor.

Your LIRA to LIF Account

- This used to be a group retirement plan at a previous employer.
- When you left the company your group plan was converted to this account.
- These accounts are locked until age 55.

- Your LIF not only has minimum amounts you need to withdraw each year, like a RRIF, it also has a maximum withdrawal amount.

Your LRSP to LIF Account

- An LRSP or Locked-In Retirement Savings plan is similar to a LIRA.
- This would convert to a LIF as well.

Annual Withdrawal Amounts

- It is a percentage of your portfolio as of January 1st.
- The percentage, or prescribed rate, is set by the government.
- The prescribed rate is based on your age.
- The prescribed rate will increase over time*.
  - At age 72, your withdrawal percentage is 5.40%.
  - At age 80, your withdrawal percentage is 6.82%.
  - At age 90, your withdrawal percentage is 11.92%.
  - At age 95 and older, your withdrawal percentage is 20.00%
- We can set your minimum amount based on your age or the age of your spouse.
  - Once it is set, you can never change it.
  - It might make sense to set your withdrawal rate based on the younger spouse's age. However, it would best to discuss this with our team as there are a lot factors that can affect this.

Sources:
[1] Government of Canada, 2023

Keeping the Cottage in the Family

Frank Valicek, CFP, CIM
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President & Life Insurance Advisor, Upper Canada Capital Inc.

With summer coming to a close, cottage owners may be reflecting on how they can pass on the property that holds a special place in their hearts to the next generation. One strategy is to establish a Whole Life insurance policy to pay for the cottage estate taxes on the second death. Let's take a look at a quick case study using Manulife as the insurer. Bob & Susan, both aged 55, estimate the capital gains tax at current market value is $250,000. They apply for a joint-last to die policy with an increasing death benefit to account for rising property values and name their children as beneficiaries. With annual premiums of $10,475 payable for 20 years, the death benefit grows to $703,296* when Susan passes away at age 93 with Bob having passed away a few years earlier. Their children receive the $703,296* tax-free death benefit to pay the tax bill for the cottage enabling them to retain ownership. A comforting planning strategy for Bob & Susan to have in place on those cold winter nights. **based on Manulife illustration dated September 12, 2023 with $250,000 guaranteed death benefit + $213,303 guaranteed cash value + $239,993 non-guaranteed cash value using current dividend scale -1%.*

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What Exactly is Inflation?

Evan Campbell
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Inflation has been a hot topic for the last year and a half, as many central banks around the globe have raised policy interest rates to curb spending and bring inflation down.

Inflation, by its definition, is a sustained increase in the general price level of goods and services over time. Inflation means that the purchasing power of your money decreases over time as prices rise. To measure inflation the government uses a Consumer Price Index (CPI), a metric which measures the cost of a basket of goods composed of over 700 items and measured monthly by Statistics Canada. This basket is further broken down into 8 major components:

1. Food
2. Shelter
3. Household Operation, Furnishing and Equipment
4. Clothing and Footwear
5. Transportation
6. Health and Personal Care
7. Recreation, Education and Reading
8. Alcoholic Beverages, Tobacco Products and Recreational Cannabis

Price changes for items in each category are measured and then assigned a weighting based on its relative importance for an average Canadian.

Depending on factors such as your personal budget, spending habits or even geographic location, you may experience the effects of inflation much different than other Canadians.

To get a sense of your personal inflation rate, Statistics Canada has a personal inflation calculator available online at:

https://www150.statcan.gc.ca/n1/pub/71-607-x/71-607-x2020015-eng.htm

So, what causes inflation?

The general cause of inflation is an increase in money-supply within an economy or market and divided into three types:

1. Demand-Pull Inflation:
    a. Demand-pull inflation is when an increase in demand spurs increases in goods and services. More money supply and credit stimulate demand in the economy.

2. Cost-Push Inflation:
    a. Cost-push inflation occurs when production costs of goods increase but demand remains the same, “pushing” up inflation.

3. Built-In Inflation:
    a. Built-in inflation refers to the expectation that costs of goods and services are expected to rise and keep rising in the future. With this expectation, workers demand higher wages which further increases the cost of production and creates a positive feedback loop driving inflation higher again. A healthy economy seeks to have a steady rate of inflation.

Sources:
Statistics Canada, 2023
Investopedia, 2023

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